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4 December 1973

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POL Situation in South Vietnam, Laos, and Cambodia

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South Vietnam

South Vietnam consumes some 55-60,000 barrels of refined products daily. Of this amount the military is estimated to consume about 40% or roughly 20,000 barrels per day. Civilian consumption (of which 80% probably occurs in the Saigon metropolitan area) is comprised almost entirely of electric power generation, motorized vehicles, and limited industrial uses. Electric power generation facilities are virtually all oil-fired and are not readily convertible to alternative sources of energy. The only available hydroelectric capacity, located near Dalat, is presently being used only for minor local uses because of Communist interdiction of transmission lines to Saigon.

Nearly all military and civilian petroleum requirements are supplied by three major companies -- Shell, Exxon and Caltex -- from refining facilities in Singapore. Civilian petroleum imports, financed under the Commodity Import Program, have not been disrupted by the Arab embargoes. These imports represent roughly a 35,000 barrel daily consumption rate and will probably amount to some \$80 million during 1973. With rising prices and reductions in US aid levels, civilian petroleum imports next year will undoubtedly decline. Moreover, the 3 December attack at Nha Be that completely

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25X1

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destroyed Shell's storage facilities and 300,000-450,000 barrels (equivalent to 9-12 days' normal consumption or about one-third of total civilian stocks) will preclude past levels of civilian consumption, at least until alternate storage facilities can be established.

Petroleum supplies to South Vietnam's military establishment are funded by the US Department of Defense, out of the Military Support Assistance Fund, under direct contract with the oil companies. In response to Arab pressures, the Government of Singapore in late November informed Shell (which is expected to supply nearly all RVNAF fuel requirements in 1974) that contracts with the DOD for supplying RVNAF would be terminated. To circumvent this measure, the US is proposing a method to transfer funds straight to the GVN Ministry of Defense which can then make purchases directly from the oil companies. Although no agreement has yet been reached, it is believed that this type of arrangement may be acceptable to the Government of Singapore and ultimately to the Arab producers. In the meantime, South Vietnam's military requirements are being supplied by the US from strategic war reserve stocks, presumably in Japan or Okinawa, at roughly the same level as in the past (about 20,000 barrels) per day.

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Cambodia

The current world oil crisis has caught Cambodia's civilian stocks of petroleum at a critical point. Supplies of most products are around three-weeks' level, with kerosene in particularly short supply. Phnom Penh would like to have a 60-day supply of fuel oil and auto diesel by the end of the year and a 30-day reserve of all other civilian oil products, in anticipation of increased Communist interdiction of principal transport routes.

Four companies supply Cambodia's civilian POL needs -- Shell, Esso, Caltex, and Summit. The latter is based in Taiwan and ships oil refined in Thailand to Battambang in Cambodia. The other three companies obtain refined oil from Singapore since Cambodia's only refinery at Kompong Som was damaged by enemy attacks in early 1971. Esso completed contracted deliveries five months ago and is beginning preparations to pull out of Cambodia altogether by the end of 1974. After announcements two weeks ago of sharp cutbacks in scheduled deliveries because of the Arab embargo, Shell and Caltex (which together provide some 70 percent of Cambodia's civilian needs) have agreed to honor existing commitments but will not deliver amounts beyond those already contracted. This latest decision should see Cambodia through the end of the year, but the GKR

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will probably be unable to achieve targeted reserve stock levels, and there is growing uncertainty over adequate deliveries in 1974.

The situation with respect to the military sector is less clear. Stocks of gasoline and auto diesel are sufficient for at least three weeks at present consumption rates. POL for the military is supplied by Shell, Esso, and Caltex, who also obtain refined products from Singapore. Singapore notified these companies that all contracts to deliver POL to Cambodian military forces -- funded by the US Department of Defense -- were being canceled. It is not known whether this directive was at the initiative of the Arabs or of the refineries. It has been proposed that existing contracts be modified to read as an agreement between the GKR and the oil companies, but with purchase of supplies ultimately to be reimbursed by the Pentagon. The proposed modification was approved by the local representatives of the three distributors, with Singapore to respond by 28 November. We do not know the nature of Singapore's reaction.

Cambodian authorities have taken measures to conserve existing stocks. FANK is to reduce consumption of all POL products 10 percent by 15 December, while civilian stocks

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of gasoline and diesel fuels are being rationed. Government vehicles and public transportation are not affected, however. Additional conservation measures can be expected and, for civilians, will likely include substantial price increases and rationing of all petroleum products.

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- 7 -  
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Laos

The Laotian petroleum situation is rather bleak. The country receives all of its military needs through US assistance programs, with civilian imports financed by foreign exchange provided largely by the US. Distribution of petroleum is carried out by Shell, Caltex, Esso, and Summit, who obtain most of their refined products from Thailand, also under the Arab embargo. Shell, the principal supplier, informed officials in Vientiane that gasoline and diesel fuel for military use would not be delivered after 1 December. Shell is reportedly amenable to arrangements that would camouflage US financing of these fuels, but nothing concrete has been worked out. Timing is critical at this point, as current military stocks will be exhausted by the end of the year, even with strict rationing measures now in effect.

Civilian petroleum reserves are also in short supply, particularly diesel fuel and some types of gasoline. The government has taken several measures to conserve supplies that, under normal consumption rates, would be exhausted by mid-December. Gasoline prices have been increased substantially, service stations are closed on weekends, and rationing has been instituted. It is not known what impact these steps have had on the present stock levels of civilian petroleum products.

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